Policy Ideas in the History of Economic Thought

Fall, 2010

General Course Description

Economic policy has been important since before the beginning of systematic economic thought. This course will examine a few selected policy issues drawn from classical to present-day economic thought. These may vary from year to year. The emphasis will be on those topics that are of continuing present-day interest. This year some of the thinkers are Adam Smith, Jeremy Bentham, John Stuart Mill, Arthur C. Pigou, Ludwig von Mises, John Maynard Keynes, and Friedrich Hayek. The topics will range widely including: the protection of domestic industry, Say’s Law and macroeconomic policy, use of taxes to deal with external effects, property rights, and economic calculation without markets.

Prerequisites: Both Principles I and II.

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Most of the readings are available through the indicated links; others have been uploaded to Blackboard. When a reading is followed by (H) it will be distributed in class.

If a reading is followed by an [R] then a report is due as indicated on the Report Assignment Sheet.

I. The Classical Heritage

(a) The Legal Framework of Economic Order

Jean-Baptiste Say, “Of the Right of Property,” A Treatise on Political Economy, Book I, Chapt. XIV.

Adam Smith, The Theory of Moral Sentiments, Part II, Sec. II, Chap. III, Paragraphs II.II.15-II.II.18; II.II.20. Begins “It is thus that man...”

_________, The Theory of Moral Sentiments, Part III, Sec. I, Chap. VI, Paragraphs II.1.122-123. Begins “There is, however...”

(b) Economic Liberalism


II. Say’s Law of Markets

(a) The Classical Understanding

Jean-Baptiste Say, “Of the Demand or Market for Products,” A Treatise on Political Economy, Book I, Chap. XV.


(b) Keynes’s Interpretation and Criticism

John Maynard Keynes, The General Theory of Employment, Interest and Money, Chap. 2, Sec. VI.

Steven Kates, Say’s Law and the Keynesian Revolution: How Macroeconomic Theory Lost Its Way, pp. 74-78; 114-121; 223-225. (Blackboard)

III. The Great Depression


IV. The End of Laissez-Faire?

(a) The Meaning of Laissez-Faire


(b) Decline and Reaction


Herbert Spencer, “The Coming Slavery,” in The Man versus The State

V. Economic Calculation Under Socialism

(a) Decentralization of Knowledge in Society

David Ramsey Steele, “Division of Knowledge,” From Marx to Mises, Chap. 10, pp. 229-37, 243-248. (Blackboard) [R]


(b) Economic Calculation Without Market Prices

Peter J.Boettke, “Theoretical Problems of Socialism,” Why Perestroika Failed. (Blackboard) [R]

David Ramsey Steele, “The Discovery of the Economic Calculation Problem,” From Marx to Mises, Chap. 4, pp. 88-93. (Blackboard)


VI. Arthur Pigou and Pigovian Taxes


James M. Buchanan, “Private and Social Cost,” Cost and Choice, Chap. 5.
VII. Political and Legal Consequences of Economic Planning


F. A. Hayek, “Planning and Democracy” and “Planning and the Rule of Law,” *The Road to Serfdom* (1944), Chap. 5, 6, pp. 100-23. (Blackboard)